

ANNUAL REPORT 1956

BOEING AIRPLANE COMPANY

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Report to Stockholders Year Ended December 31, 1956

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BOEING AIRPLANE COMPANY

HIGHLIGHTS

	1956	1955
Operating Summary		
Sales	$1,006,356,748	$853,827,722
Earnings before taxes on income	$67,134,989	$62,641,411
Taxes on income	$35,000,000	$32,250,000
Net earnings	$32,134,989	$30,391,411
Dividends paid	$8,162,577	$10,579,340
Net earnings per share	$4.82	$4.57
Dividends paid per share	$1.22	$1.59
Percentage of earnings before taxes on income to sales	6.67%	7.34%
Percentage of taxes on income to sales	3.48%	3.78%
Percentage of net earnings to sales	3.19%	3.56%
Position at Year End		
Working capital	$99,382,619	$99,268,220
Ratio of current assets to current liabilities	1.54 to 1	1.75 to 1
Stockholders' investment	$148,687,195	$123,975,358
Number of shares outstanding	6,666,689½	3,258,125¾
Stockholders' equity per share	$22.30	$18.65
Backlog	$3,024,000,000	$2,624,000,000
General Information		
Total wages and salaries	$373,918,888	$319,791,241
Average number of employees	71,106	65,366
Gross additions to plant and equipment	$30,847,605	$7,521,100

NOTE: All per share figures adjusted on an equivalent basis to the 6,666,689½ shares outstanding at December 31, 1956.

Senior Vice President W. E. Beall (left), President William M. Allen survey a world made smaller by jet.

CONTINUING PROGRESS

To The Stockholder:

Boeing's 40th anniversary year was a successful one for the company. Sales totaled $1,006,356,748, and net earnings were $32,134,989. The backlog was $3,024,000,000, the highest yet recorded at a year end.

The number of Boeing jet transports on order from commercial airlines was substantially increased, and America's first production-model military jet tanker-transport was turned out at the company's Renton plant.

The B-52 eight-jet bombers were delivered to the Air Force by the Seattle and Wichita divisions at increasing rates. Four Air Force wings now have B-52s in operation.

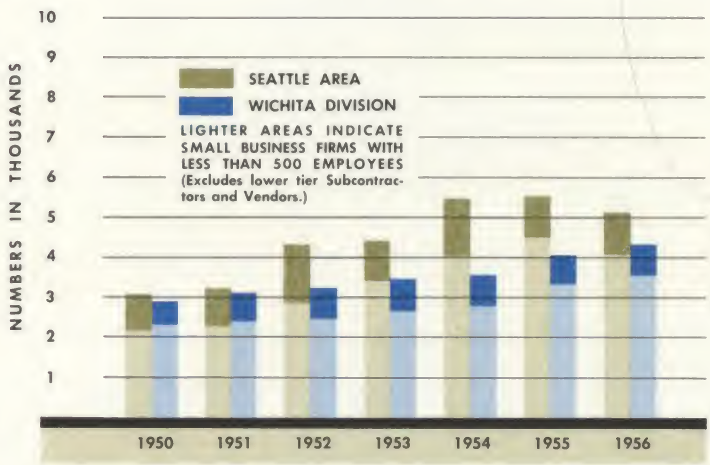
In speaking of the Stratofortress on December 17, when the famed Collier Trophy was jointly awarded the Air Force and Boeing for the B-52, Vice-President Richard Nixon said:

"The B-52 is the greatest deterrent to war the world has ever seen, and the greatest force for peace when a potential aggressor may be on the loose."

Good progress was made in our guided missile program. It is expected that the Bomarc defense weapon will soon be put into production.

Boeing is now experiencing one of the most substantial periods of growth in its 40-year history. Aviation is in a period of technological advance surpassing any previously experienced, and we must increase our skills, our facilities and our capabilities if we are to remain competent in the field. We not only compete with other aircraft firms in this country, but we compete against the skills and abilities of a potential aggressor nation, which appears to be according greater priority and

Subcontractors and Vendors
1950 - 1956



emphasis to the effort than is the case in this country.

As of the beginning of 1950, the company's gross investment in plant and equipment was a little more than $20,000,000. Under present facilities planning, it is expected that the investment will reach a total of $165,000,000 by the end of 1958, with approximately $110,000,000 being expended in the years 1956 through 1958. This demonstrates the magnitude of the facilities investment which the company is making in order to accomplish the current programs and to prepare for the job ahead.

In keeping with government policy and to avoid even greater expenditures for facilities, the company is continuing to enlarge its subcontracting programs. A substantial percentage of the B-52, KC-135, 707 and Bomarc work is subcontracted.

The company's management sustained a real loss with the death, on December 8, of John Philip Weyerhaeuser, Jr. Mr. Weyerhaeuser, widely known as president of the Weyerhaeuser Timber Company, had been a director of the Boeing company since February, 1951. His vision and his willingness to push ahead into new fields have been an important factor in recent accomplishments of the Boeing organization.

To replace Mr. Weyerhaeuser, the company's directors have elected Paul Pigott to membership on the Board. Mr. Pigott is a former director of the Boeing company, having served in this capacity from 1936 to 1942. He is president of the Pacific Car and Foundry Company, a director of the Standard Oil Company of California and of the Washington Mutual Savings Bank.

As announced last year, the company has revised its organization to consist of a headquarters group and five operating divisions. A brief description of the work assignments and progress of each division follows.

C. B. Gracey, vice president and general manager of the Seattle Division.

Seattle's Plant 2—home of Seattle Division and company headquarters.

SEATTLE DIVISION

Largest of the five divisions in terms of employment, the Seattle Division has as its principal product at this time the B-52 Stratofortress bomber. The division also is responsible for certain major developmental projects.

B-52 Program

The production rate of the B-52 increased throughout the year in keeping with Air Force programming. Deliveries of the aircraft were interrupted several times due to difficulties with a vendor-furnished equipment item, and by changes in the fuel system. Schedule deficiencies were practically overcome by year end.

As a demonstration of the capability of the B-52 and its crews, the Air Force in January of this year flew three B-52s on a nonstop flight around the world in 45 hours, 19 minutes. The bombers, refueled en route by Boeing KC-97s, performed excellently.

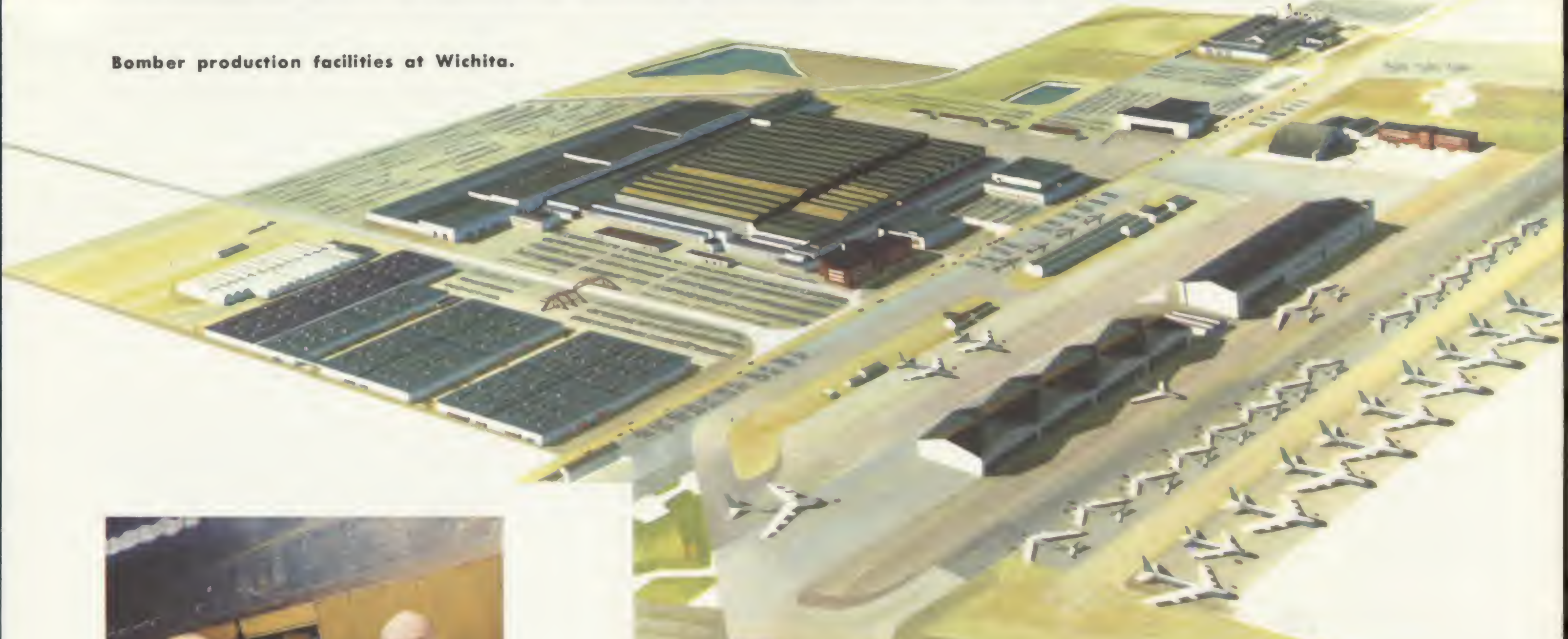
Facilities Expanded

To handle scheduled B-52 production and to equip for advanced projects, the Seattle Division is expanding its facilities. Construction of a Developmental Center was undertaken in 1956 and will be completed by September of '57. The Center, when fully furnished with the latest laboratory equipment and other installations, will cost approximately $30,000,000. The new $2,275,000 supersonic wind tunnel, started in 1955, will be put into use this year.

B-52 production fills Plant 2 at Seattle. Vertical tails in foreground will stand four stories high when installed on bombers.

Packed assembly floor at Wichita, where B-52s replaced B-47s during the past year.

Bomber production facilities at Wichita.



J. E. Schaefer (left), vice president and general manager, and N. D. Showalter, assistant general manager at Wichita.

WICHITA DIVISION

During 1956 the Wichita Division completed its transition from B-47 to B-52 production. The final B-47 was delivered to the Air Force in October, ending the largest single production program in the history of American airpower. More than 1,300 of the Boeing six-jet bombers have been built at the Wichita plant since the first one was completed in March of 1950. In addition the plane was manufactured under license by the Douglas Aircraft Company and by the Lockheed Aircraft Corporation.

Although no more B-47s are being produced, the bomber will remain a strong part of the Air Force's strategic bombing force for several years.

While the B-47 line was closing at Wichita, B-52 production was increasing in tempo and will continue to do so throughout the year. The Kansas plant turned out its first B-52 in December, 1955, after having received orders in October of 1953 to begin operation as a second source of B-52 production.

The engineering group at Wichita is furnishing substantial support to the Seattle Division in further development of the B-52 and is working on certain developmental projects.

Modernization

In addition to its production program, Wichita is conducting several modernization programs.

B-47 Stratojet, now out of production, continues to form nation's greatest striking force.

B-47s are being flown in from operating bases to be modernized and re-equipped. Wichita crews also are being sent to military bases to conduct modification programs. These B-47 programs will provide additional work for several years. B-52 modernization work also has been assigned to this division.

To accommodate the B-52 program at the government-owned Wichita main plant, sixteen government-financed construction projects were completed during 1956 at a cost of $8,030,000. Still under construction at year end were additional projects totaling $7,960,000.

One of the principal projects finished in 1956 was a concrete parking apron capable of accommodating forty-five B-52s simultaneously. A four-place hangar for B-52s was completed in February, 1957, and a paint-and-finish hangar is scheduled for completion in June. Total covered plant area at Wichita at year end was 5,142,045 square feet.

TRANSPORT

The new Transport Division, located at Renton, Washington, made excellent progress in establishing a working organization during its first year.

Military Operations

During the year, the division made a smooth transition from KC-97 to KC-135 production. It rolled out the first of the new jet tanker-transports the same day the last piston-engine plane came out of the factory. The KC-97 was the 888th plane of this type built by Boeing, and the last of more than 22,000 piston-engine planes delivered.

In the completion and first flight of the initial KC-135, the company met one of its most difficult assignments. The Air Force contract executed in October, 1954, called for the jet tanker to be

J. B. Connelly, vice president and general manager of the Transport Division.

DIVISION

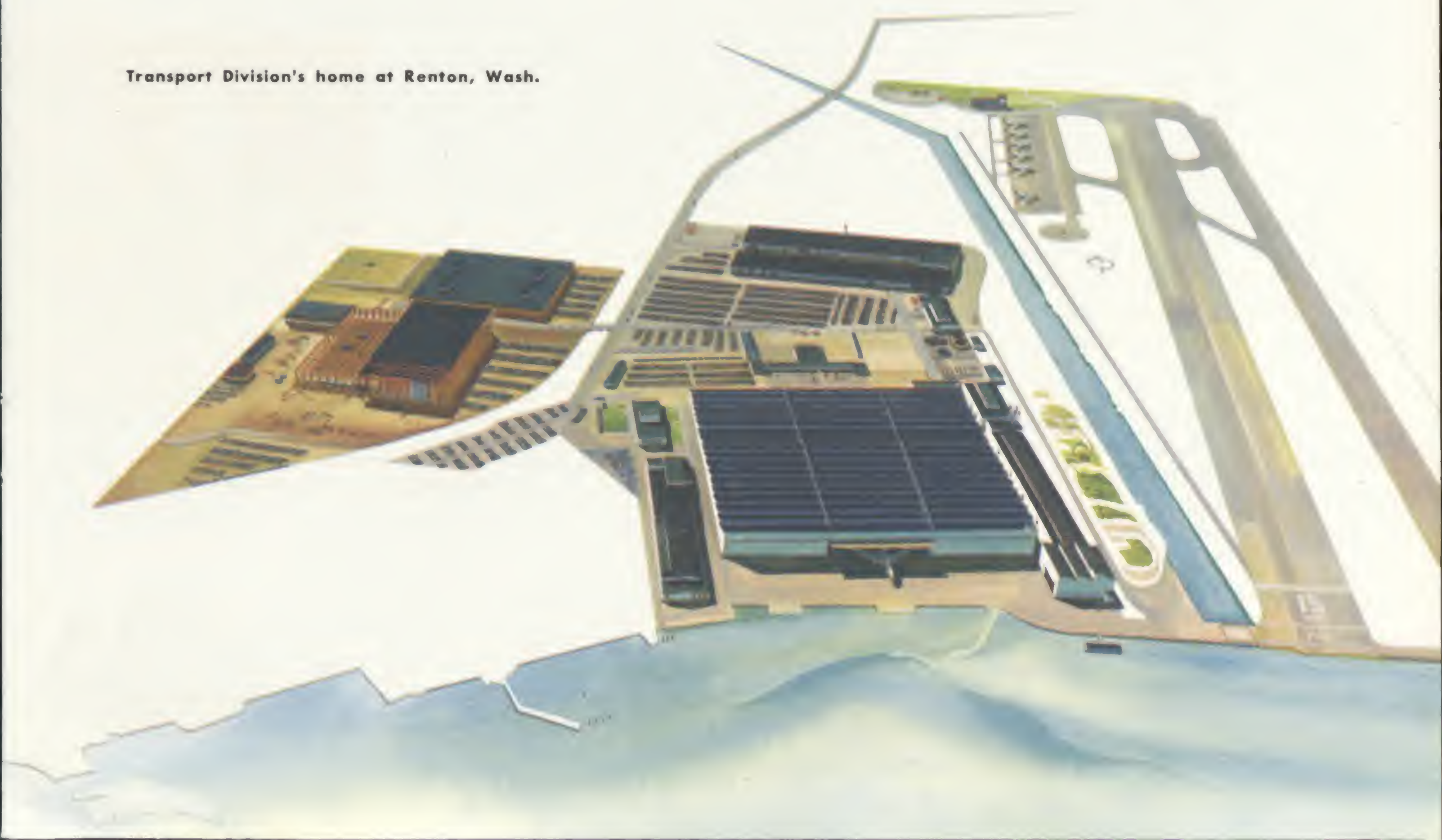
shop-completed within twenty-one months. By outstanding teamwork, the engineering, tooling and implementation of the production line were achieved in record time. This achievement was only possible because of the experience and design work obtained from the company-financed prototype jet tanker-transport.

The new tanker made its first flight on August 31, ten days ahead of schedule. Since then the plane has made 53 test flights totaling 134 hours, and it has been joined by sister ships in the Boeing flight test program. Some difficulties have been experienced; however, the KC-135 is demonstrating that it will be an outstanding airplane. Delivery of these airplanes to the Air Force started in January of this year.

Commercial Operations

The company's progress in its endeavor to firmly establish itself in the commercial field has been very satisfactory. As of the year end Boeing had firm orders or letters of intent for a total of 134 commercial jet transports from eleven major airlines. These airlines include five domestic and six foreign operators with a world-wide network of air routes serving six continents. An intense sales program is being carried on throughout the world, and the prospects for additional sales are good.

To best meet the needs of present and potential customers, the company has developed a family of jet transports. Included are four versions of



Transport Division's home at Renton, Wash.

the 707 series and a lighter-weight, medium-range transport designated the 717. The company is continuing to study the needs of the airlines and may develop further models for other requirements.

Production is proceeding on the four versions of the 707 on order. Two of these versions are of the large 707 Intercontinental, designed for long-

Jet relatives are KC-135 tanker-transport (foreground) and 707 prototype, nation's first jet transport.

range operation. One will be equipped with the Pratt & Whitney JT4 engine, and the other will have the British-built Rolls Royce Conway engine. There are also two versions of the smaller 707 Stratoliner. One will be equipped with the Pratt & Whitney JT3-C engine and the other with the larger JT4.

First of the 707s should be off the production line before the end of '57, and CAA certification tests will begin in the spring of 1958. The first production airplane is scheduled for delivery in December of '58.

Boeing and the CAA already have started a joint study and test program using the company's 707 prototype, to pave the way for the airlines' transition to jet transportation. After the first phase of this program, CAA administrator James T. Pyle said:

"We are terrifically impressed with this aircraft. If all jet aircraft come up to its standard of operation, we have no problem in the operation of jet airplanes."

The 707 prototype continued to prove its value throughout the year. Upon completion of its test program for the U. S. Air Force, the airplane was used increasingly in commercial tests and demonstrations.

New Facilities

More than $30,000,000 is being spent on a facilities expansion program for the Transport Division. This includes acquisition of 67 acres of land adjacent to the existing government-owned Renton plant, construction of a single-story office building, a factory structure and an employee cafeteria on the new property, and a commercial transport delivery center at Boeing Field, Seattle. A portion of the office building already is completed and occupied. The new factory structure, which will provide more than 360,000 square feet of floor space, will be completed in October of 1957.

The new facilities at Renton have been designed and developed to tie in effectively with the existing government-owned facilities at the Renton plant, but could be utilized independently of the government plant. The combined facilities will permit the concurrent manufacture of a number of models of both military and commercial transports.

Boeing 707 prototype visits Seattle-Tacoma International Airport, right. Boeing and CAA have begun test program with this aircraft to prepare way for the entry of jet transportation on America's airways.

KC-135s are in production at Transport plant for the Strategic Air Command.

PILOTLESS AIRCRAFT

Lysle A. Wood, vice president and general manager of Pilotless Aircraft Division.

During 1956 the Pilotless Aircraft Division made notable progress. Continuing test programs indicate we have an excellent weapon system built around the Bomarc, a long-range missile capable of intercepting enemy aircraft with a high degree of accuracy.

Due to the rapid growth and development of this project, Boeing has been seeking a new location for the production program. While substantial facilities had been allocated and constructed in the Seattle area for the developmental program, these were not adequate for assembly and functional testing of the production Bomarc weapon.

To meet the additional space requirements the company took options on two properties in northern California. Subsequently, however, the Air Force requested that Boeing review the possibility of containing the missile operation within

DIVISION

the Seattle area, and it has now been determined that this plan will be carried out.

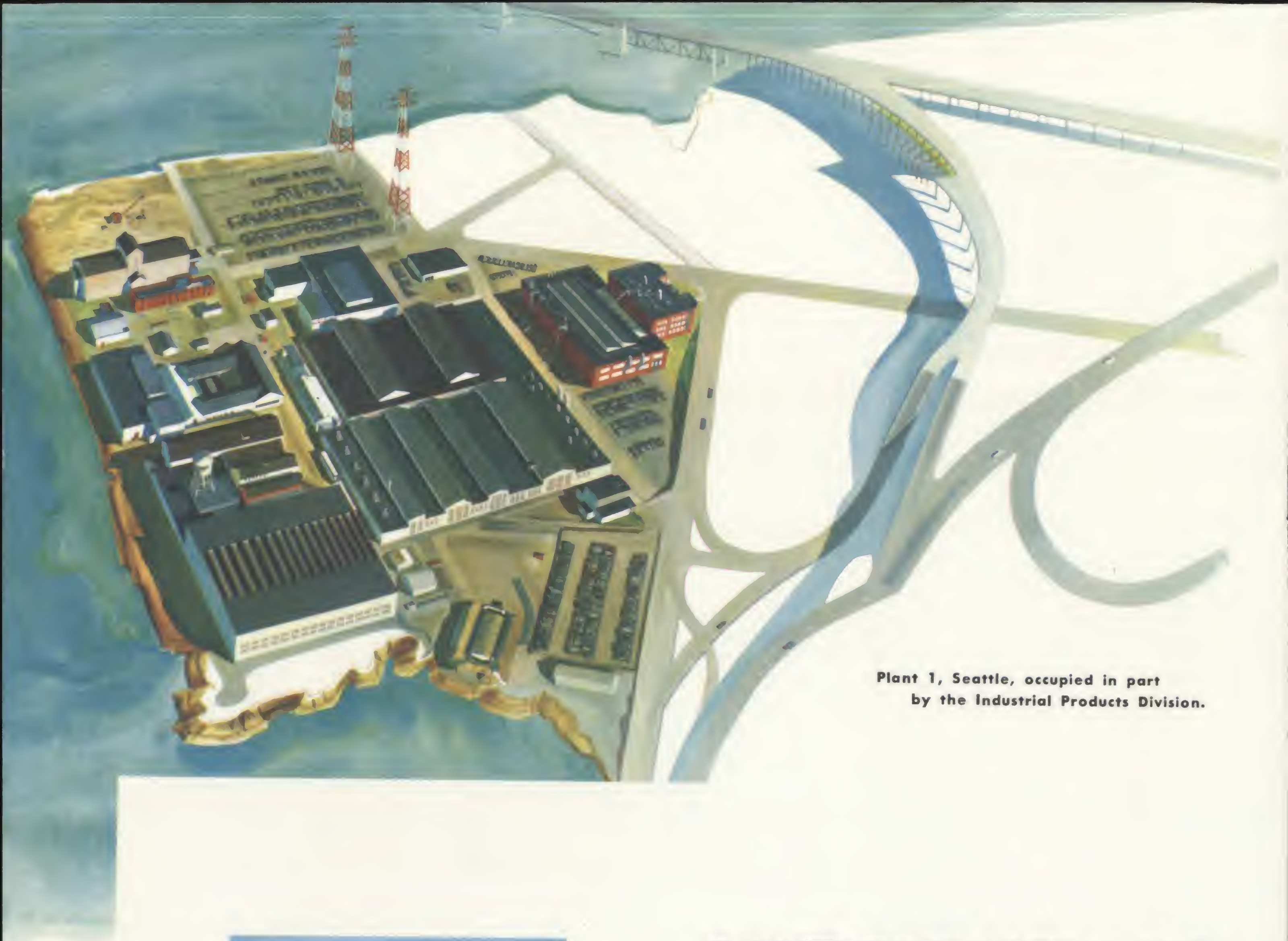
Scope of the Program

Bomarc is a defense system designed to defend entire areas against enemy attack. In this manner it differs from the short-range point-defense weapons now in service.

The company is responsible for the complete weapon system. This means that Boeing must provide not only the missile, but also its launching, control and maintenance equipment and the training of personnel to handle the weapon. A major part of the program is being handled on a subcontract basis. However, because of the scope of the program, the division's activities will continue to expand as Bomarc goes into production.

Simulated Bomarc nose is built onto a B-57 bomber for flight testing missile systems.

Test firings indicate Bomarc will be an excellent weapon against enemy air attack.



Plant 1, Seattle, occupied in part by the Industrial Products Division.

Frank Terdina, general manager of the Industrial Products Division.

INDUSTRIAL

The division made its first sales of gas turbine engines to commercial customers in 1956, the engines being the newly developed 502-10C model which develops 240 brake horsepower. These engines will be used for test purposes and specific application by an oil company and manufacturers of farm implements and earth-moving equipment.

Operations of the division continued on a profitable basis during the year. Additional deliveries of Boeing turbine engines to the Navy were made, the small turbines being used for minesweeper propulsion units and to drive electric generators. Engines also were sold to the Air Force

Air-compressor carts, turbine-powered, are in production for Navy and Air Force. They are used for starting engines of jet planes.

PRODUCTS DIVISION

Major use of Boeing gas turbine engines is in Navy minesweeper launches like one above, both as propulsion units and generator drives.

and Navy to power air starter carts for jet aircraft.

While prospects are good for increasing military sales, further development is necessary if this product is to be established in the commercial field.

Continued research and development work was carried on during the year. Efforts were concentrated on three new engines in the 400-horsepower class. A new light-weight starter cart also was produced.

Intercontinental striking power: Boeing KC-135 with Boeing B-52.

B-52 bombers on line at Seattle are readied for delivery to striking units of Strategic Air Command.

Crews of three B-52s are awarded the DFC after their 45-hour nonstop flight around the world.

One of SAC's Boeing KC-97 tankers at Castle AFB.

Hundreds of SAC B-47s, both at home and abroad, are poised for rapid retaliation.

BOEING PEOPLE

Now more than ever before the success of the company rests in the skills and know-how of our people. In times past we have been asked to create the best airplane possible with respect to the current state of the art. Today we are being asked to create planes for tomorrow that are seemingly impossible in terms of present knowledge. New facilities and additional money for research cannot supply the answers unless the company has skilled and capable employees to use these tools. Employees are being asked to delve into unknowns, to improve present skills and learn new ones, and to develop and apply creative ideas.

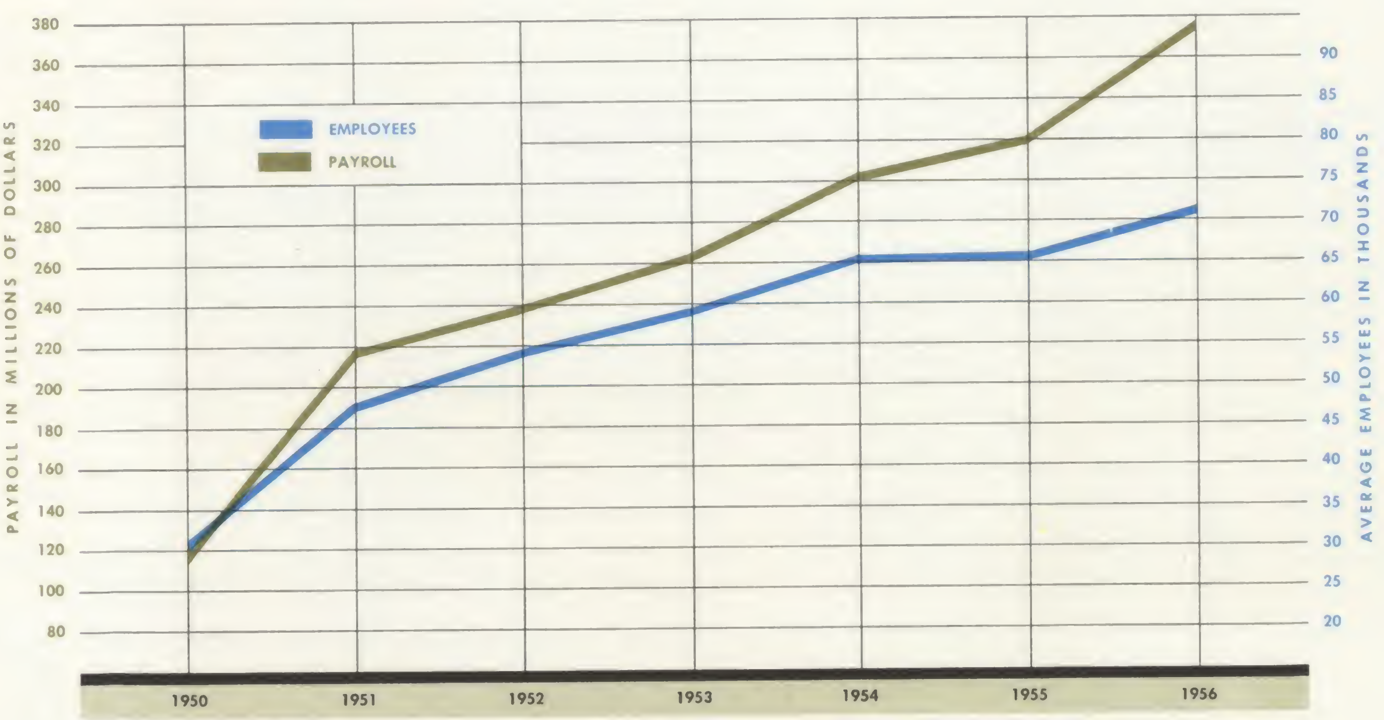
Boeing is putting increased emphasis on employee training to help its people meet these challenges. During 1956 the company provided 2,151,000 man-hours of on-the-job training. Employees, realizing the career opportunities available to the trained person, voluntarily took nearly 500,000 man-hours of off-the-job training.

The company carried on an intense recruiting program during the year, seeking high-calibre people in all fields of Boeing activity.

A Good Year for Employees

Boeing employees had a good year in 1956. There were more men and women working for the company than ever before. Employment averaged 71,106 and reached a peak of 81,958 at year end. Total wage and salary expenditures were higher

Annual Payroll and Average Employees
1950 - 1956



than for any prior year, reaching $373,918,888 and averaging $7,190,748 weekly. Awards announced in 1956 under the Incentive Compensation Plan totaled $3,866,000 for 5,885 officers, supervisors and other eligible employees.

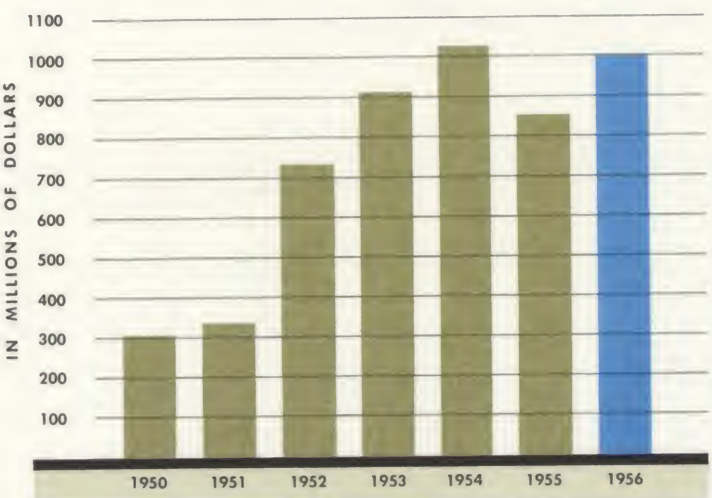
Early retirement was given 68 employees during the year under provisions of the company-financed retirement plan which went into effect January 1, 1955. The first normal retirements were made on January 1, 1957, with 466 employees going into retirement and receiving benefits under the plan.

Indicative of the patriotic spirit of Boeing employees is the fact that more than 62,000 of them are regularly purchasing U. S. savings bonds through payroll deduction.

New methods, new skills are required. In use here is new method of welding titanium.

FINANCIAL REVIEW

Sales
1950 - 1956



Net Earnings
1950 - 1956

Sales during 1956, totaling $1,006,356,748, represented an increase of $152,529,026 over the previous year. Net earnings, after taxes on income, were $32,134,989 and amounted to 3.19 cents per dollar of sales. This compares with $30,391,411 of earnings and 3.56 cents per dollar of sales in 1955. The principal reason for the reduced return on sales is the write-off of certain research, developmental, and general and administrative-type expenses applicable to commercial programs. Earnings were equivalent to $4.82 per share as compared to $4.57 (adjusted on equivalent basis to the shares outstanding at December 31, 1956) for the previous year.

The transition of the B-52 program from a cost-plus-a-fixed-fee basis to a fixed-price basis was accomplished during 1955. This fact, plus the scheduled increase in deliveries of B-52s during the year, accounts principally for the higher level of sales and earnings.

Although the B-47 and KC-97 production programs were phased out in the latter part of 1956, they contributed significantly to 1956 sales and earnings. The KC-135 program is being initiated on a fixed-price basis under which sales are recorded as deliveries are made. Since KC-135 deliveries did not commence until early 1957, the production activity on this program is not reflected in 1956 sales and earnings.

Approximately 85% of the year's sales were under fixed-price contracts containing incentive provisions. Under these provisions, actual costs upon completion are compared with previously

established target costs. Cost underruns or overruns are shared by the company and the government, usually in the ratio of 20% and 80% respectively. Continued emphasis was placed on cost reduction and increased efficiency. The company again was successful in attaining cost performance below contractual targets. Additional earnings were, therefore, realized under the incentive provisions of the contracts.

The Year Ahead

Substantially higher sales are anticipated for the coming year as a result of increased B-52 deliveries, the commencement of deliveries under the KC-135 program, and increased activity on the Bomarc program.

Production activity on the 707 jet transport will be at an increasingly higher level. However, this program will not contribute to 1957 sales since the first airplane is not scheduled for delivery until December of 1958. On the basis of current cost projections, it is believed that we have attained or exceeded the break-even point with the number of commercial jet aircraft now on firm order. The financial outcome of the program cannot be accurately appraised at this time, however, because of the uncertainty with respect to future cost trends. The number of additional airplanes sold also will affect the final financial results of the program.

Unfilled orders at year end were up $400,000,000 from the previous year, making the total backlog $3,024,000,000. Of the increase, $287,000,000 is represented by orders for commercial aircraft received in 1956. This brings the commercial aircraft backlog to $638,000,000, representing 21% of the over-all total. Included in the commercial backlog figures are firm orders for 130 airplanes.

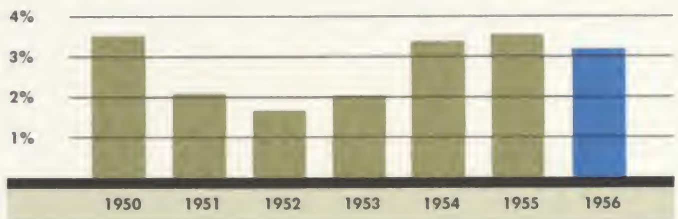
Included in the present backlog, but only to the extent allocated, are the starting or implementing funds on letter contracts with the government for which definitive contracts have not yet been signed. As of December 31, fixed-price contracts containing incentive provisions accounted for approximately 95% of the government orders.

Facilities

As explained earlier in this report, the company is undertaking a facilities expansion program of substantial magnitude. During 1956,

Per Cent of Net Earnings to Sales

1950 - 1956



$30,847,605 was expended for facilities. The gross investment in property, plant, and equipment at the year end totaled $84,038,423. This amount includes facilities with an original cost of $15,964,681 which, although still in use, have been fully depreciated or amortized as of the year end.

Certificates of necessity have been obtained since the beginning of 1950 on facilities costing $43,956,175. The certified portions of the cost of these facilities in the amount of $28,736,682 are being amortized over 60-month periods. Depreciation and amortization of $6,237,686, including amortization of $2,129,116 in excess of normal depreciation, was charged to operations in 1956. A portion of the amortization in excess of normal depreciation, applicable to certain capital asset items, is included as a cost under the company's military contracts.

Federal Income Taxes

The federal income tax returns of the company have been examined through 1950. Except for certain claims for refund of prior years' taxes, agreements have been reached for these years. During the year, company claims under Section 721 of the Internal Revenue Code of 1939 for the years 1942 and 1943 were settled for $650,000. This amount and the interest thereon have been included in the statement of net earnings. The other refund claims have not been recorded in the accounts.

Tax returns for 1951, 1952, and 1953 are currently under examination by the Internal Revenue Service. The income tax liability as stated on the Balance Sheet is believed adequate for all open years.

Renegotiation

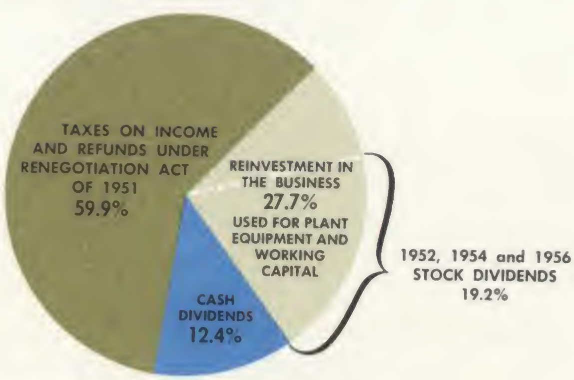
The company has been advised by the Renegotiation Board that excessive profits in the amount of $7,315,080 ($7,500,000 less applicable state income taxes) were realized during the year 1953. The net refund, after credit for federal income and excess profits taxes already paid, will amount to $2,057,793. The Board's determination, in the opinion of your management, is unjustified and is not consistent with the intent and objectives of the Renegotiation Act of 1951. The company will appeal to the Tax Court of the United States for a redetermination of the Board's findings.

The Board commended the company for its contribution to the nation's defense and for the efficient manner in which all phases of operations were conducted. It was indicated that the principal reasons for the determination of excessive profits were the increased volume of sales and earnings, the extensive use of government-owned facilities, and the high rate of return (as compared to companies in other industries) on beginning book net worth. Government procurement representatives, in the negotiation of the basic contractual profit framework, were required to give consideration to the extent that government-owned facilities were utilized in our operations, to the capital investment as represented by beginning net worth, and to all other factors affecting the volume of sales and earnings attained.

The company's earnings rate, as related to sales prior to renegotiation, was well within the negotiated contractual profit framework and was less than one-half that realized by manufacturing industry generally. There are numerous reasons why return on beginning book net worth is not a valid criterion of earnings in the aircraft industry. However, even this criterion when applied over a period of years compatible with our product cycle results in a lower return than that realized by many nationally recognized manufacturing companies.

Renegotiable earnings were increased in 1953 under the incentive provisions of major production contracts. Under these same provisions the company's efficient performance resulted in a very substantial reduction in the sales price of articles delivered. The Board's determination, therefore, requires the refund of incentive profits that

Disposition of Earnings*
1950 - 1956



*TOTALING $363,170,000 BEFORE TAXES AND ACTUAL AND PROJECTED REFUNDS UNDER THE RENEGOTIATION ACT OF 1951

were earned by reason of extraordinary efforts which resulted in substantial savings to the government. This action is completely inconsistent with the stated objectives of the government to preserve and foster incentives in the performance of contracts. We do not believe this was the intent of Congress when it enacted the renegotiation legislation.

The management of your company sincerely believes that its earnings in all years subject to renegotiation have been extremely reasonable when measured against the job done. However, by reason of the Board's 1953 determination, it is necessary to re-evaluate the possible liability for 1954 and subsequent years. At last year end an estimated requirement for total refunds, after taxes, of $7,000,000 was established in the accounts for 1953 and 1954. No provision for refund for the year 1955 was established.

A projection of the Board's determination for the year 1953, as interpreted by the company, indicates that the estimated liability established at last year end for the years 1953 and 1954 was overstated by approximately $2,500,000. A projection on the same basis indicates that refunds should not be required for the years 1955 and 1956.

The projection for 1954 is based on the fact that in the opinion of your company its performance under all statutory factors considered in the renegotiation process was equal to or better than 1953. The amount of $2,500,000 is therefore being returned to retained earnings. (Net earnings for 1954 and the applicable balance sheet accounts have been adjusted in the statistical financial summary on pages 30 and 31 of this report.)

Substantial efforts have been directed toward the preparation for the hearing before the Tax Court of the United States with respect to the company's 1952 renegotiation case, which involves $2,946,702. However, a date for the trial has not been established.

Working Capital

At year end, working capital totaled $99,382,619 — approximately the same amount as the previous year end.

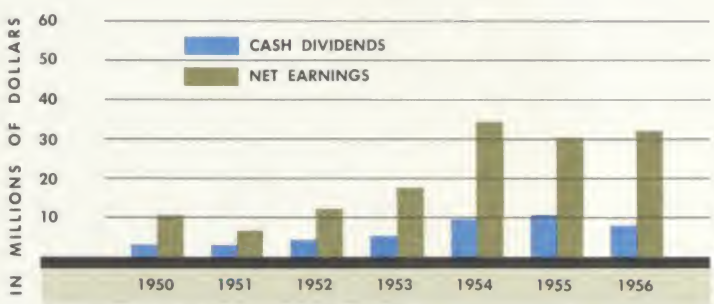
In anticipation of the possible need for additional working capital, negotiations were concluded with commercial banks during the year increasing the company's open line of credit from $52,000,000 to $75,000,000. Borrowings under the credit line were required during the latter part of the year, and at December 31, notes payable to banks totaled $11,550,000.

Capital Stock and Dividends

On April 24, 1956, the stockholders approved an increase in the authorized number of capital shares from 5,000,000 to 10,000,000.

On July 2, 1956, the Board of Directors provided for a two-for-one stock split. One additional share for each share previously held was issued to stockholders of record at the close of business on July 13, 1956. At the same time, the Board adopted a new dividend policy which provides for a quarterly cash dividend of 25 cents per share, and

Cash Dividends and Net Earnings
1950 - 1956



the distribution of a small stock dividend annually. The purpose of this change in the dividend policy is to permit greater accumulation of capital funds over the next few years. It is expected that the new policy will be continued during the period of the company's requirements for substantial additional capital.

Cash dividends of $8,162,577 were paid during the year. The payments amounted to $1.25 per share on the basis of the shares outstanding after the stock split. In addition, a 2% stock dividend was issued and distributed to stockholders of record on November 19, 1956, in accordance with the new dividend policy.

In connection with the stock split and the 2% stock dividend, the sums of $16,339,924 and $6,895,454 were transferred at the Board's direction from the Retained Earnings account to the Capital Stock account. The stated value of the capital stock of the company at December 31 was $84,943,535.

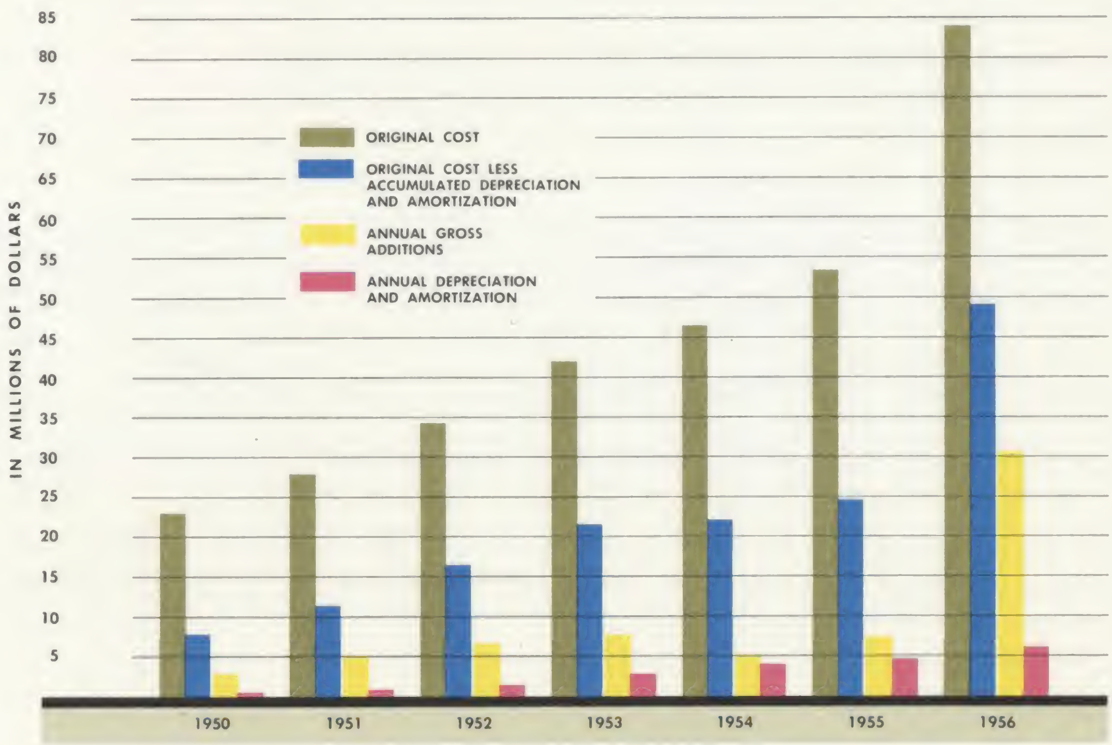
At its February, 1957, meeting, the Board of Directors declared the established 25-cent quarterly cash dividend.

Net Worth

The net worth of the company increased during the year by the $23,972,412 of 1956 retained earnings (net earnings less cash dividends) and by the $739,425 market price of the 9,859 shares of common stock issued to company employees under the incentive compensation plan. As discussed previously, reinstatement

Company Investment in Property, Plant and Equipment

1950 - 1956



in retained earnings of a portion of the allowance for renegotiation established at last year end increased net worth by $2,500,000. Stockholders' equity after the above transactions totals $148,687,195 or $22.30 per share as compared with $18.65 at December 31, 1955, adjusted on an equivalent basis to the shares outstanding at December 31, 1956.

Future Financial Requirements

The financial requirements of the company over the next several years will be substantial. Funds will be needed to finance the facilities expansion program and to meet possible increases in working capital requirements.

The financial requirements of the company are continually being re-evaluated on the basis of current operating trends and prospective future business. At this date, no plans have been formulated with respect to financing from either a long term debt or equity standpoint. However, if at any time in the future conditions indicate that either of these forms of financing is desirable, such course of action will be undertaken.

A LOOK AHEAD

In preparing for the future, your company must work constantly at the development of new products intended to replace those now in production. During the accelerated period of technical advancement the industry is experiencing, this developmental work confronts us with ever-increasing problems.

In assessing future needs, your management believes it important to continue the development of an advanced strategic weapon system to follow the B-52. Attention is being directed toward meeting the military requirement in this area with a highly effective system, to be available for operational use when required.

The Bomarc interceptor missile should develop into an extended production program. The company expects to be assigned certain responsibilities for the maintenance of the weapon after its delivery to the government. Boeing is exploring future developments in the missile area, making use of the knowledge acquired on the present program.

In the commercial field the company is determined to supply its customers with aircraft that will give them a competitive advantage over airlines using other equipment.

The KC-135 is recognized as an important addition to the country's defense, and production is expected to extend over a substantial period. The plane has excellent growth potential, and because of its versatility is well suited to other military requirements.

We have confidence in the ability of our people and the organization of our effort. At the same time, we recognize that greater achievements are yet to be attained if our company is to retain its position of leadership. It is the determination of management, however, not only to maintain but to improve that position.

For the Board of Directors

William M. Allen

President

March 4, 1957.

BOEING AIRPLANE COMPANY DECEMBER 31, 1956

ASSETS

CURRENT ASSETS:		
Cash		$ 30,950,619
Accounts receivable —		
United States	$ 26,996,365	
Others	1,899,241	28,895,606
Estimated balances receivable from the United States —		
For expenditures under cost-plus-a-fixed-fee and facilities contracts and applicable fees	$ 39,686,064	
For deliveries under contracts for which unit prices have not been established or revised	19,813,548	59,499,612
Accumulated charges on fixed-price type contracts less estimated cost (average total contract basis) of deliveries	$655,179,679	
Less advances and progress payments received and accrued	501,506,733	153,672,946
Inventories of parts and materials at the lower of average cost or market		8,099,141
Prepaid expenses		1,509,581
TOTAL CURRENT ASSETS		$282,627,505
PROPERTY, PLANT, AND EQUIPMENT, at cost:		
Land ($3,651,029) and buildings	$ 35,950,578	
Machinery, tools, and equipment	27,904,204	
	$ 63,854,782	
Less allowance for accumulated depreciation and amortization	34,733,847	
	$ 29,120,935	
Construction work in progress	20,183,641	49,304,576
		$331,932,081

LIABILITIES AND STOCKHOLDERS' INVESTMENT

CURRENT LIABILITIES:		
Notes payable to banks		$ 11,550,000
Accounts payable		95,142,538
Salaries and wages		31,120,124
Payroll, property, and excise taxes		4,219,316
Incentive compensation for officers and employees		3,866,000
Payable to Trustee under retirement plan		2,013,405
Allowance for renegotiation, net of taxes		4,500,000
Federal and state taxes on income		30,833,503
TOTAL CURRENT LIABILITIES		$183,244,886
STOCKHOLDERS' INVESTMENT:		
Capital stock, par value $5 a share —		
Authorized — 10,000,000 shares		
Issued and outstanding — 6,666,689½ shares at stated value	$84,943,535	
Retained earnings (after transfer to the capital stock account of $69,681,044)	63,743,660	148,687,195
		$331,932,081

See notes to financial statements.

STATEMENT OF NET EARNINGS

BOEING AIRPLANE COMPANY **Year Ended December 31, 1956**

Sales		$1,006,356,748
Other income		1,168,142
		$1,007,524,890
Cost of sales (excluding applicable portion of certain items set forth below in the amounts incurred during the year)	$905,184,904	
Research and developmental expenses	12,458,306	
General and administrative expenses	9,855,834	
Depreciation and amortization	6,237,686	
Incentive compensation for officers and employees	3,866,000	
Other expenses	2,787,171	
Federal and state taxes on income	35,000,000	975,389,901
NET EARNINGS FOR THE YEAR		$ 32,134,989
Net earnings per share		$4.82

See notes to financial statements.

RETAINED EARNINGS

BOEING AIRPLANE COMPANY **Year Ended December 31, 1956**

Balance at January 1, 1956 (after transfer to the capital stock account of $46,445,666)		$60,506,626
Add:		
Net earnings for the year	$32,134,989	
Revision of allowance for renegotiation established for prior years	2,500,000	34,634,989
		$95,141,615
Deduct:		
Amount transferred to the capital stock account by the Board of Directors in connection with the two-for-one stock split	$16,339,924	
Cash dividends, equivalent to $1.25 a share after giving effect to the two-for-one stock split	8,162,577	
Stock dividend (2%) — Amount transferred to the capital stock account by the Board of Directors equal to the approximate market value on declaration date	6,895,454	31,397,955
Balance at December 31, 1956		$63,743,660

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

RENEGOTIATION: In 1955 a charge was made to retained earnings of $8,746,702 (net of taxes) to provide for the additional estimated liability for renegotiation refunds for the years 1952, 1953, and 1954, based on the company's interpretation of the Renegotiation Board's unilateral determination that excessive profits of $2,946,702 (net of taxes) were realized in 1952. The Renegotiation Board subsequently determined unilaterally that excessive profits of $2,057,793 (net of taxes) were realized in 1953. Based upon the company's interpretation of this latter determination, the charge made to retained earnings at the end of 1955 was $2,500,000 more than is now estimated will be required, and this amount has been returned to retained earnings in 1956. Since the company's interpretation of the Board's determinations indicates that no refunds will be required for the years 1955 and 1956, no provision therefor has been made in the accounts.

It is the company's belief that no excessive profits were realized in any of the aforementioned years. An appeal from the Board's decision for the year 1952 has been taken to the Tax Court of the United States and it is expected that the decision for the year 1953 will likewise be appealed.

RETIREMENT PLAN: Under the company's non-contributory retirement plan, a charge of $10,013,331 has been made in the accounts for the year 1956, of which $8,377,844 represents current service and $1,635,487 is applicable to past service. At December 31, 1956, the past service liability not recognized in the accounts was estimated at $14,000,000.

PLANT EXPANSION COMMITMENTS: The company had commitment balances of approximately $35,000,000 on construction contracts and for equipment purchases at December 31, 1956.

CAPITAL STOCK ACCOUNT: Changes in the capital stock account during the year 1956 were as follows:

	SHARES	AMOUNT
Balance at January 1, 1956	3,258,125¾	$60,968,732
Shares sold to officers and employees at market value under the Incentive Compensation Plan	9,859	739,425
Shares issued to effect the two-for-one stock split and amount transferred to the capital stock account by the Board of Directors	3,267,984¾	16,339,924
Shares issued as 2% stock dividend and amount transferred to the capital stock account by the Board of Directors	130,720	6,895,454
Balance at December 31, 1956	6,666,689½	$84,943,535

ACCOUNTANTS' REPORT

TOUCHE, NIVEN, BAILEY & SMART

CERTIFIED PUBLIC ACCOUNTANTS

1411 FOURTH AVENUE
SEATTLE 1, WASH

March 4, 1957

Board of Directors
Boeing Airplane Company
Seattle, Washington

We have examined the balance sheet of Boeing Airplane Company as of December 31, 1956, and the related statements of net earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were unable to obtain satisfactory confirmations of receivables from the United States by direct communication, but we satisfied ourselves as to such accounts by other auditing procedures.

In our opinion, the accompanying balance sheet and statements of net earnings and retained earnings present fairly the financial position of Boeing Airplane Company at December 31, 1956, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Also, in our opinion, the action of the Board of Directors on December 11, 1956, in setting aside the sum of $3,866,000 for the year 1956 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan.

Touche, Niven, Bailey & Smart

Certified Public Accountants

FIVE-YEAR CONDENSED COMPARATIVE FINANCIAL

Financial Position — As of December 31,	1956
Current assets	$ 282,627,505
Current liabilities	183,244,886
Working capital	$ 99,382,619
Property, plant, and equipment, net	49,304,576
Net assets	$ 148,687,195
Represented by stockholders' investment in:	
Capital stock	$ 84,943,535
Retained earnings	63,743,660
	$ 148 687,195
Stockholders' equity per share	$ 22.30
Ratio of current assets to current liabilities	1.54 to 1

Sales, Earnings and Dividends

Sales	$1,006,356,748
Earnings before taxes on income	67,134,989
Taxes on income	35,000,000
Net earnings	32,134,989
Cash dividends paid	8,162,577
Net earnings per share	4.82
Cash dividends paid per share	1.22
Income taxes per share	5.25
% earnings before taxes on income to sales	6.67%
% taxes on income to sales	3.48%
% net earnings to sales	3.19%

General Information

Backlog	$3,024,000,000
Number of authorized shares of common stock	10,000,000
Number of shares outstanding	6,666,689½
Average number of employees	71,106
Total wages and salaries	$ 373,918,888
Gross additions to plant and equipment	30,847,605
Depreciation and amortization	6,237,686
Amortization in excess of normal depreciation	2,129,116
Square feet of floor area:	
Government owned	9,381,243
Boeing owned	3,796,105
Leased	1,854,955

NOTE: Financial data restated to give effect to the 1952 and 1953 renegotiation refunds and the projected renegotiation refund for 1954. All per share figures adjusted on an equivalent basis to the 6,666,689½ shares outstanding at December 31, 1956.

DATA

1955	1954	1953	1952
$ 231,378,352	$ 230,475,654	$ 210,137,249	$ 164,486,771
132,110,132	149,448,894	153,243,190	115,181,015
$ 99,268,220	$ 81,026,760	$ 56,894,059	$ 49,305,756
24,707,138	22,167,795	21,553,595	16,500,488
$ 123,975,358	$ 103,194,555	$ 78,447,654	$ 65,806,244
$ 60,968,732	$ 60,000,000	$ 35,203,414	$ 35,203,414
63,006,626	43,194,555	43,244,240	30,602,830
$ 123,975,358	$ 103,194,555	$ 78,447,654	$ 65,806,244
$ 18.65	$ 15.58	$ 11.84	$ 9.93
1.75 to 1	1.54 to 1	1.37 to 1	1.43 to 1
$ 853,827,722	$1,027,473,254	$ 913,045,946	$ 731,687,874
62,641,411	71,023,012	53,618,178	42,462,109
32,250,000	36,546,989	35,300,000	30,124,362
30,391,411	34,476,023	18,318,178	12,337,747
10,579,340	9,729,122	5,676,768	4,325,560
4.57	5.21	2.77	1.86
1.59	1.46	.86	.65
4.85	5.52	5.33	4.55
7.34%	6.91%	5.87%	5.80%
3.78%	3.56%	3.86%	4.11%
3.56%	3.35%	2.01%	1.69%
$2,624,000,000	$2,131,000,000	$2,357,000,000	$1,648,000,000
5,000,000	5,000,000	2,500,000	2,500,000
3,258,125¾	3,246,436¾	1,623,681	1,623,681
65,366	65,054	58,716	54,677
$ 319,791,241	$ 300,244,415	$ 261,682,685	$ 238,174,873
7,521,100	5,061,959	8,009,875	6,745,430
4,925,358	4,030,572	2,795,931	1,642,244
1,940,577	1,728,987	1,025,848	281,192
8,593,841	7,879,008	6,806,552	6,080,412
3,769,664	3,370,705	3,301,850	2,779,333
1,516,666	1,630,908	1,471,705	1,324,696

BOARD OF DIRECTORS

WILLIAM M. ALLEN
President

C. L. EGTVEDT
Chairman

WELLWOOD E. BEALL
Senior Vice President

DARRAH CORBET
President, Smith Cannery Machines Company, Seattle

D. A. FORWARD
Senior Vice President, The First National City Bank of New York

ARTEMUS L. GATES
Consultant, New York City

FRED P. LAUDAN
Vice President — Manufacturing

PAUL PIGOTT
President, Pacific Car and Foundry Company, Renton

WILLIAM G. REED
Chairman, Simpson Timber Company, Seattle

J. E. SCHAEFER
Vice President — General Manager, Wichita Div.

DIETRICH SCHMITZ
President, Washington Mutual Savings Bank, Seattle

EDWARD C. WELLS
Vice President — Engineering

J. O. YEASTING
Vice President — Finance

OFFICERS

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President

C. L. EGTVEDT
Chairman

WELLWOOD E. BEALL
Senior Vice President

EDWARD C. WELLS
Vice President — Engineering

J. O. YEASTING
Vice President — Finance

FRED P. LAUDAN
Vice President — Manufacturing

J. P. MURRAY
Vice President — Eastern Representative

A. F. LOGAN
Vice President — Industrial Relations

J. E. PRINCE
Vice President — Administration, Secretary

C. B. GRACEY
Vice President — General Manager, Seattle Div.

J. E. SCHAEFER
Vice President — General Manager, Wichita Div.

LYSLE A. WOOD
Vice President — General Manager, Pilotless Aircraft Div.

J. B. CONNELLY
Vice President — General Manager, Transport Div.

CLYDE SKEEN
Controller

EVAN M. NELSEN
Treasurer

GENERAL COUNSEL

HOLMAN, MICKELWAIT, MARION, BLACK & PERKINS

GENERAL AUDITORS

TOUCHE, NIVEN, BAILEY & SMART

TRANSFER AGENT

CITY BANK FARMERS TRUST COMPANY, NEW YORK CITY

REGISTRAR

THE FIRST NATIONAL CITY BANK OF NEW YORK, NEW YORK CITY

BOEING AIRPLANE COMPANY

GENERAL OFFICES • 7755 EAST MARGINAL WAY • SEATTLE 24, WASHINGTON


W. E. Boeing (right), with pilot Eddie Hubbard in 1919 at completion of the first international air mail flight.

William E. Boeing, Sr., who died September 30, 1956, left with the company much more than its name. The Boeing company is guided today by many of the basic principles he instilled in his associates during the first half of the firm's existence.

Few men have influenced the course of aviation in equal degree. It was Mr. Boeing who carried the first international air mail in 1919; who launched commercial aviation's first long-distance air route in 1927; who played a major role in bringing about the aeronautical design revolution of the early 1930s.

Mr. Boeing organized the principal predecessor of this company in 1916 and remained active in its affairs until he withdrew from aviation in 1934. During that time he established a foundation upon which the Boeing company and the entire air industry have erected many of their subsequent achievements.